California
Natural Gas Vehicle
Coalition

Michael L. Eaves
President

October 14, 2005

California Energy Commission
Dockets Office, MS-4
RE: Docket No. 04-IEP-IA
1516 Ninth Street
Sacramento, CA 95814-5512

Subject: Comments on DRAFT 2005 IEPR

The California Natural Gas Vehicle Coalition (Coalition) is pleased to offer these final comments regarding the DRAFT 2005 IEPR that relate to transportation fuels. The Coalition is concerned that there has been a major shift in CEC direction since the 2003 IEPR that advocated the need for a diverse transportation fuels portfolio for the state to the DRAFT 2005 IEPR that seems to promote blend fuel stocks for gasoline and diesel and little else. The Coalition is also concerned that CEC price forecasts for fuels prejudice the economic analyses for alternative fuels and thus produce recommendations that are less supportive of stand alone alternative fuels.

Petroleum Demand Reduction Goals:

WSPA testified at one of the CEC hearings that they were pleased that the 15% petroleum reduction goal for the state had been removed from the DRAFT 2005 IEPR. Commissioner Geesman indicated that he wasn't aware of this change and didn't support the removal of this goal. The 2005 IEPR needs to include this long-term goal of petroleum reduction. Without such a goal, the oil industry will continue to advocate business as usual and continued growth of California's gasoline and diesel demand backed with promises that the petroleum industry will find ways to meet California's transportation energy needs. Without a petroleum reduction goal, there is little incentive for alternative fuels to make the kinds of investment needed to develop sustainable alternative fuel markets in California.

CEC Forecasts of Energy Pricing:

In numerous workshops and hearings, CEC's forecasts of energy pricing have been questioned and yet these forecasts are still used to predict winners to support. Economic comparisons in the 2003 IEPR were based on much lower petroleum fuel prices than were experienced in the marketplace at the time. In the DRAFT 2005 IEPR, the CEC is using a high price diesel fuel price that is nearly a dollar below current retail prices. Conversely, the CEC projects today's natural gas fuel pump prices as thirty cents per gallon higher that the highest retail price in the state. The Coalition has provided data showing that the bulk of heavy-duty natural gas vehicle customers are receiving fuel at prices that are a dollar below retail diesel in the state. These kinds of errors in the baseline case are compounded when prices are projected out into the future. The result is the CEC makes a relative lukewarm recommendation for natural gas in niche heavy-duty markets. There is nearly a $4 billion difference in cost/benefits between the industry's projections and the CEC's projections. Based on NGV industry projections, the market for natural gas in the heavy-duty sector is much larger than the CEC projects and the cost/benefit to the state could be understated by several billions of dollars.

2005 Federal Energy and Highway Bills:

The DRAFT 2005 IEPR does not include an analysis of the impact the new Energy and Highway Bills could have on California's transportation market. There are billions of dollars in incentives for light-, medium-, and heavy-duty alternative fueled vehicles, fuel station incentives, and fuel tax credits. Staff should be directed to reevaluate the projections for natural gas based on these incentives. This analysis can be done in a short period of time by modifying some of the basic inputs to the CEC model. These federal incentives will have a major impact on the economics of for natural gas vehicles in California. And since California has the largest NGV fleet in the nation, it is in a great position to receive a major portion of the federal dollars that will be available for alternative fuel.

Conclusions:

California needs a broad diversification strategy for the transportation fuel sector. While the CEC has been diligent in providing price forecasts and cost/benefit analyses for different options, it is obvious from comparing market prices and energy price forecasts that existing supply and demand price forecast models don't capture many of the subtleties of the energy market that are driving prices. The modeling efforts to date, especially where they don't track reality and future long-term projections for oil, are actually hindering California's efforts to achieve fuel diversity. The governor and legislators are looking for guidance from the CEC regarding where we go in the future. Blend stocks for gasoline and diesel aren't the answer. There are many uncertainties in future oil prices as well as market and development costs to establish new alternative fuels in the marketplace. Given these uncertainties, CEC projections that marginalize the potential contributions of some fuels are detrimental to the overall success of developing fuel diversity for the state.

A fuel diversity strategy that only includes blend stocks for gasoline and diesel will ultimately only works to maintain the status quo. The CEC should place less emphasis on their economic modeling and more emphasis on supporting a wide variety of fuel options for the state. Time will ultimately be the deciding vote on whether these options are economically viable and sustainable. The governor and legislature need a broader vision of the future than the CEC is currently conveying.

Thank you for this opportunity to comment on the DRAFT 2005 IEPR.

Sincerely,

Michael L. Eaves
President, California Natural Gas Vehicle Coalition